Audit Strategy Memorandum

Lincolnshire County Council

Year ending 31 March 2020

MAZARS

CONTENTS

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March 2020

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Lincolnshire County Council for the year ending 31 March 2020

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 Lincolnshire County Council 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.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

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 on 07875 974 291.

Yours faithfully,

Mark Surridge

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Lincolnshire County Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Value for Money

We are required to conclude whether the [Council] has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, 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.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. 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 disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

Mark Surridge
Director and Engagement Lead

E-Mail: mark.surridge@mazars.co.uk
Tel: 07875 974 291

Mike Norman
Senior Manager

E-Mail: michael.norman@mazars.co.uk
Tel: 07909 984 151

In addition a separate Engagement Quality Control Reviewer (EQCR) has been appointed for this engagement.

3. 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.

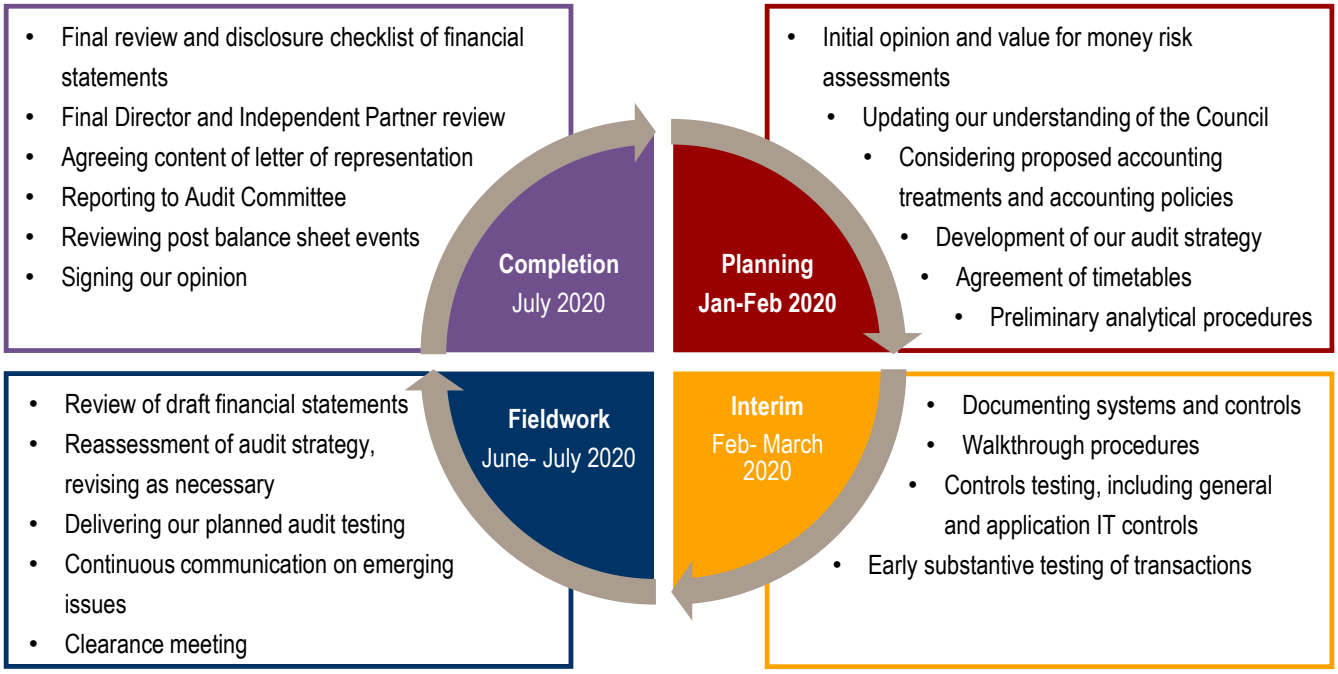
Audit approach

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.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

We have considered the Council's Internal Audit arrangements as part of our initial risk assessment and have confirmed that the expected framework is in place. We will liaise with them throughout our audit regarding their audit findings and the implications for our audit responsibilities. At this stage we do not plan to place direct reliance on their detailed audit work. If we do rely on their work we will 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 Council'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	Our expert
Defined benefit liability	Hymans Robertson *Actuary for Lincolnshire Pension Fund*	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	Keir Property Services *The Council's external valuer for PPE and Investment Properties* Savills LLP *The Council's external valuer for Investment Properties*	Not applicable
Financial instrument disclosures	Link Asset Services *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pay and non-pay expenditure Other income	Serco *The Council's provider of financial and other support services, including the processing of payroll, accounts payable and accounts receivable.*	We will review the controls operating at the Council over these transactions and carry out substantive testing (including substantive analytical procedures and sample testing of transactions occurring in the year).

Group Accounts Approach

The Council's group structure for 2019/20 includes:

- Transport Connect, a wholly owned subsidiary;
- Eastern Shires Trading Organisation, the Council is one of the 6 shareholder councils;
- Lincolnshire Futures
- Lincolnshire County Property Ltd; and
- Lincolnshire Legal Services

The Council has not in previous years prepared group accounts on the grounds that these companies were not material or had not yet started trading. They are not therefore expected to fall within the scope of our audit for 2019/20. We will review the Council's assessment of these arrangements for this year's financial statements as part of our detailed audit work.

4. 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:

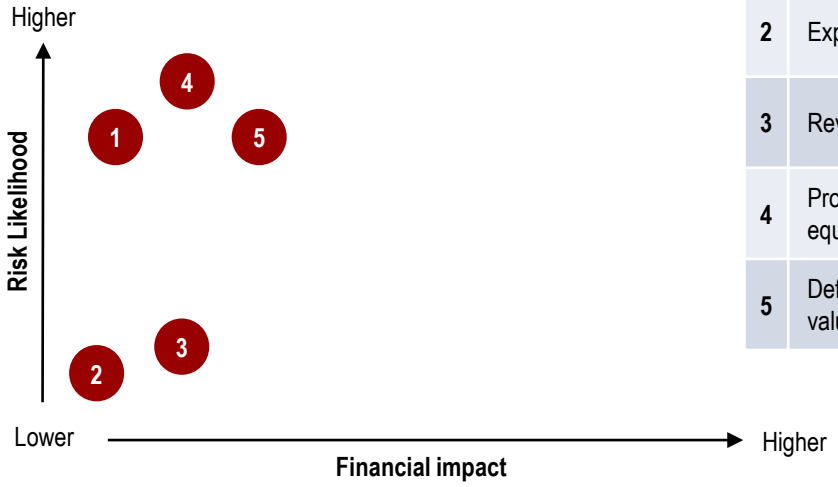
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to 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 table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Expenditure recognition
3	Revenue recognition
4	Property, plant and equipment valuation
5	Defined benefit liability valuation

4. 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	**Management override of controls** 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.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Expenditure recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of payables, specifically those that are material and manually accrued.	We will evaluate the design and implementation of controls to mitigate the risk of material manual accruals being recognised in the wrong period. In addition, we will test such accruals to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly. Our audit approach will also incorporate a range of other substantive procedures, including: • testing of payments around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2019/20 accounts; and • testing journals.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	**Revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables, specifically those that are material, subject to manual intervention and / or significant estimation.	We will evaluate the design and implementation of controls to mitigate the risk of material manual receivables being recognised in the wrong period. In addition, we will test such receivables to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly. Our audit approach will also incorporate a range of other substantive procedures, including: • testing of receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2019/20 accounts; and • testing journals.
4	**Property, plant and equipment valuation** The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.	In relation to the valuation of land and buildings, investment properties and assets held for sale we will: • Critically assess the Council's valuers' scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuers' are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Assess whether valuation movements are in line with market expectations by using information available from other sources; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
5	**Valuation of net defined benefit liability** The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	In relation to the valuation of the Council's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary, Hymans Robertson; • Liaise with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

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.

	Area of management judgement	Planned response
1	**Minimum revenue provision (MRP)** Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised is determining the level of its prudent provision.	We plan to address this judgement by: • Reviewing the Council's MRP policy to ensure that it continues to have been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the Council's policy; and • Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement.
2	**Accounting for the schools Private Finance Initiative and other school assets and liabilities** The Council's financial statements set out its accounting policies in relation to these, and their inclusion on the balance sheet. These assets and liabilities are material and the accounting treatment is based on management judgement and interpretation of the relevant accounting standards.	We plan to address this by: • challenging the reasonableness of judgments management has made; and • Substantively testing the assets and liabilities as part of our planned testing programmes.

5. VALUE FOR MONEY

Our approach to Value for Money

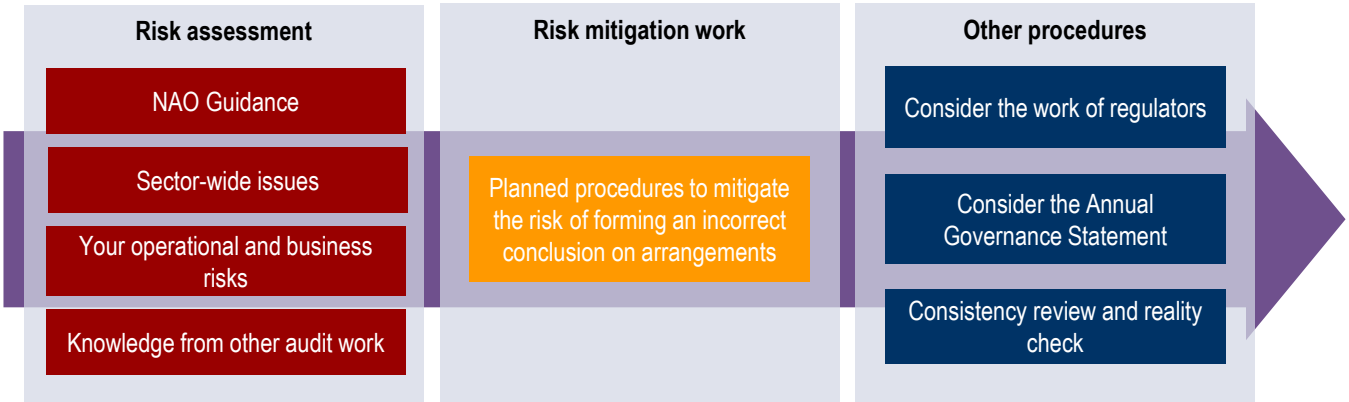
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have not identified any significant risks to our VFM conclusion. We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist. In particular, we will keep under review:

- The reports of Internal Audit
- The 2019/20 financial and performance outturn and budget setting for 2020/21 and updated MTFS.
- The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion
- The work on the Council's 2019/20 Annual Governance Statement
- Updates to the Council's strategic risk register
- Issues noted following meetings with management or Those Charged with Governance
- The work and reports of regulators

Any significant audit risk identified will be reported to the Audit Committee as part of our Audit Completion Report.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

The scale fees set by PSAA, as communicated in our April 2019 fee letter are set out below, together with the fees for our non audit work a the Council.

Service	2018/19 fee	2019/20 fee
Code audit work	£82,640	£82,640
Non Audit Fees for assurance reports		
Education and Skills Funding Agency (ESFA)- External assurance on subcontracting systems and controls	£5,250	TBC
Local Transport Plan Major Projects S31 AUD Return (Lincolnshire County Council Lincoln Eastern Bypass) - Reporting Accountant's Independent Reasonable Assurance Report	£6,000	
Teachers Pensions Agency Return - Reporting Accountants' Independent Reasonable Assurance Report	£5,500	

We need to alert the Committee at this stage to matters which are likely to impact on the final audit fee for the year. During 2019/20 there has been a raised expectation on the quality and extent of work by all auditors on:

- Defined benefit pension schemes; and
- Valuation of Property, Plant and Equipment.

Both these areas are highlighted as significant audit risks in this document. This requirement, as well as other regulatory changes affecting the audit, emerged since the current scale fees were agreed by PSAA at the start of the current contract. As a result it is expected that additional fees will need to be agreed for 2019/20. This is in line with other audit suppliers under the PSAA contracts who increased fees substantially in 2018/19. As in previous years any proposed increases to the fee to address, for example, changes to the identified risks or other additional required work will be discussed with management in the first instance and are in any event subject to approval from PSAA. We will update the Committee as the position becomes more certain and will confirm the final position in our July 2020 Audit Completion Report.

Fees for non audit work

We expect to perform the assurance review on the 2019/20 Teachers' Pensions Return. The fee for 2018/19 was £5,500 and the expectation is that this work and this fee will apply to 2019/20. A separate Engagement Letter will be agreed for this work. It is unclear at this stage if assurance reviews will be required in 2019/20 for the ESFA and Local Transport Plan Major Projects work.

Should the Council wish us to undertake any additional work, before agreeing to this we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

7. 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 ethics 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 Mark Surridge in the first instance.

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

We have not yet been separately engaged by the Council to carry out any additional work in relation to the 2019/20 year in addition to the scale fees in relation to our appointment by PSAA. At Section 6 we have identified the non audit work we were engaged by the Council in 2018/19 to carry out .The principal threats to our independence relating to these pieces of work and identified associated safeguards are set out below:

Service	Considerations
Education and Skills Funding Agency (ESFA)- External assurance on subcontracting systems and controls Local Transport Plan Major Projects S31 AUD Return (Lincolnshire County Council Lincoln Eastern Bypass) - Reporting Accountant's Independent Reasonable Assurance Report Teachers Pensions Agency Return - Reporting Accountants' Independent Reasonable Assurance Report	We considered threats and safeguards as follows: • Self Review: The work did not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars; • Self Interest: The total fee level was not deemed to be material to the Council or Mazars. The work undertaken was not paid on a contingency basis; • Management: The work did not involve Mazars making any decisions on behalf of management; • Advocacy: The work did not involve Mazars advocating the Council to third parties; • Familiarity: Work was not deemed to give rise to a familiarity threat given this was the first year these pieces of assurance work had been completed; and • Intimidation: The nature of the work did not give rise to any intimidation threat from management to Mazars.

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

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	£000s
Overall materiality	22,125
Performance materiality	17,700
Trivial threshold for errors to be reported to the Audit Committee	664

Materiality

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.

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.

Our provisional materiality is set based on a benchmark of total gross expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We have set our materiality threshold initially at 2% of the benchmark based on the 2018/19 audited financial statements.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be £22,125,000 for the audit of the Council's financial statements.

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

Performance Materiality
Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our second year of audit, we have cumulative audit knowledge about the Council's financial statements, and that we identified no complex errors in the prior year. We have therefore set our performance materiality at 80% (increased from 70% last year) of our overall materiality being £17,170,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality
We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the Council's financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality £000s
Officer remuneration	5*
Members' allowance and expenses	248
External audit costs	21

* - Reflecting movement from one salary band to another

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 £664k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

Reporting to the Audit Committee
To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – 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		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.

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