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Audit Strategy Memorandum

Lincolnshire County Council

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Year ending 31 March 2022



Agenda Item 4

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This document is to be regarded as confidential to Lincolnshire County Council It has been prepared for the sole use of Audit Committee as the appropriate sub-committee charged with governance. 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.

Audit Committee

Lincolnshire County Council
County offices
Newland
Lincoln
LN1 1YL

18 March 2022

Dear Committee Members

Audit Strategy Memorandum – Year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for Lincolnshire County Council for the year ending 31 March 2022. 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.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to 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 mark.surrIDGE@mazars.co.uk.

Yours faithfully

Mark SurrIDGE, Mazars LLP

Mazars LLP – First floor, Two Chamberlain Square, Birmingham, B3 3AX

Tel: 0121 232 9500 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

Mazars LLP
First floor
Two Chamberlain Square
Birmingham
B3 3AX

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Lincolnshire County Council for the year to 31 March 2022. 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.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. 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.

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Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or audit committee as those charged with governance, of their responsibilities.

The section 151 officer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the section 151 officer's use of the going concern basis of accounting in the preparation of the financial statements.

Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Fraud

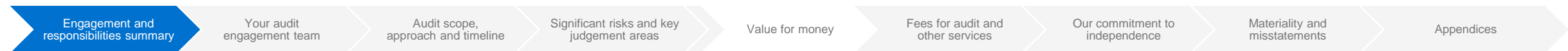
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

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

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

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.



02

Section 02:

Your audit engagement team

2. Your audit engagement team

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Mark Surridge

Engagement Partner

Email – mark.surridge@mazars.co.uk



Michael Butler

Senior Manager

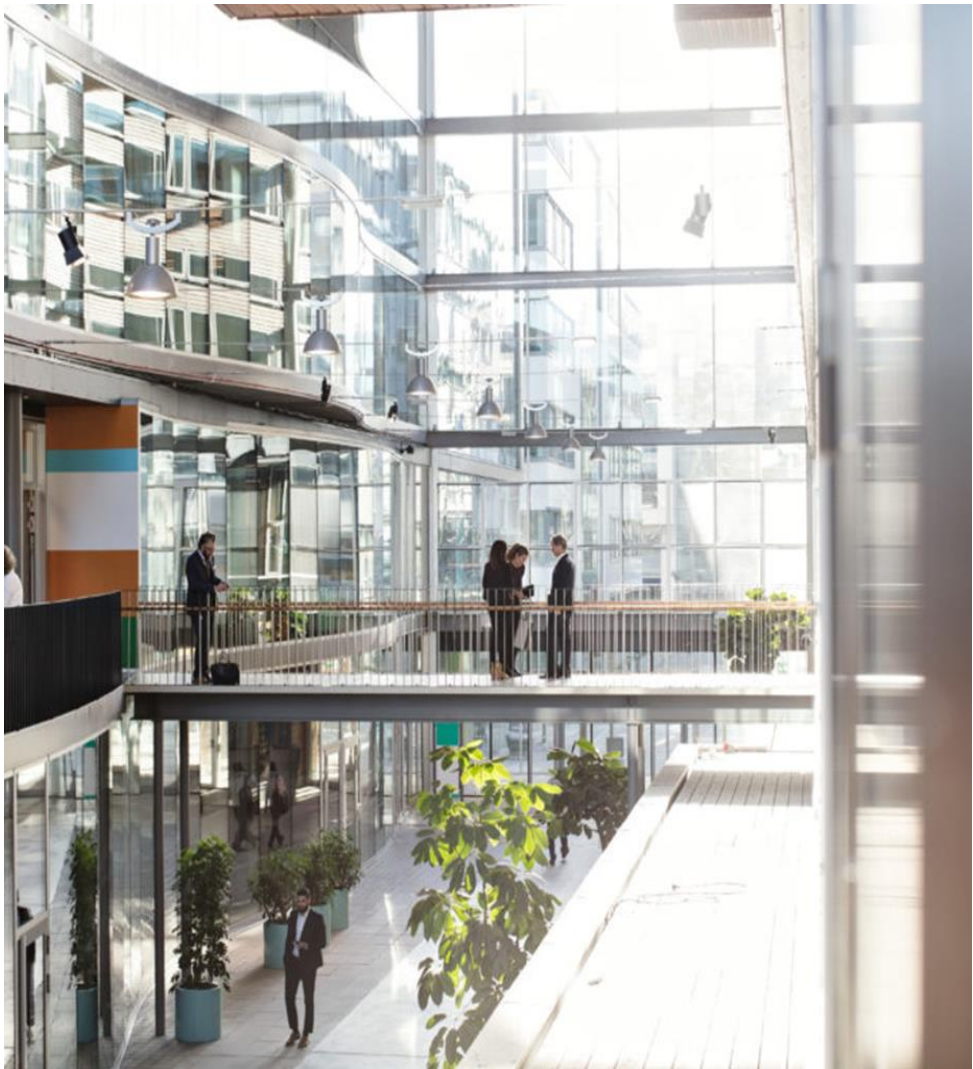
Email – michael.butler@mazars.co.uk



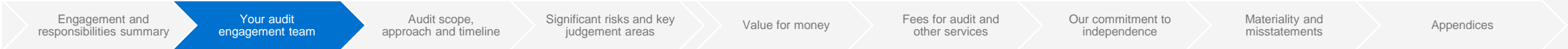
James Sutton

Assistant Manager

Email – james.sutton@mazars.co.uk



In addition, an engagement quality control reviewer has been appointed for this engagement.



03

Section 03:

Audit scope, approach and timeline

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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 activities which we consider to have a higher risk of material misstatement, such as those impacted 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

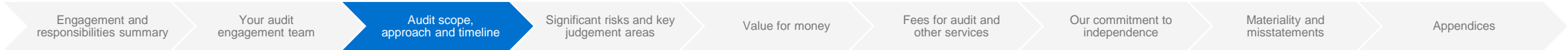
Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

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 on the next page outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage based on the current national timetable proposed by the Department for Levelling Up, Housing and Communities (DLUHC). The specific dates are subject though as always to:

- the timely provision of information by third parties; and
- us being able to fully complete the audit procedures to the required quality standards.



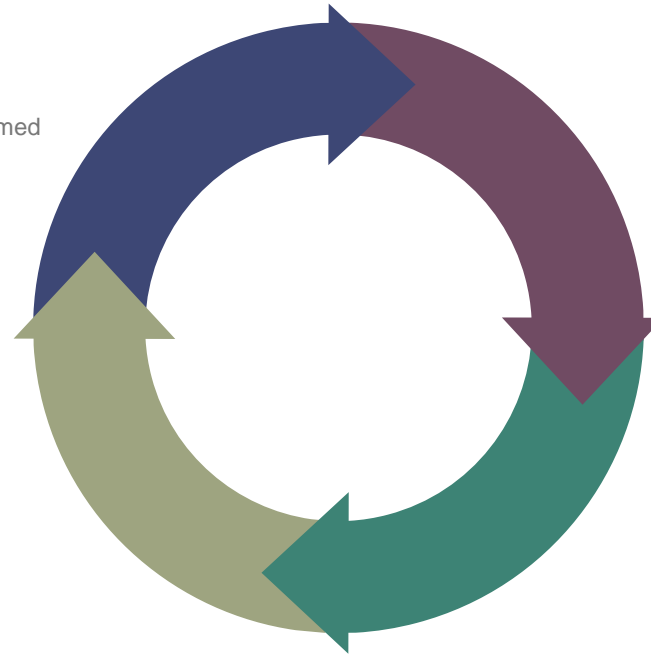
3. Audit scope, approach and timeline

Planning Jan-Feb 2022

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Completion By November 2022

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Signing the auditor's report
- Issuing the Auditor's Annual Report

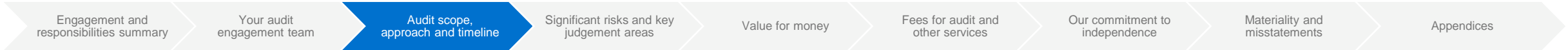


Interim March 2022

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Ongoing value for money risk assessment procedures
- Reassessment of audit plan and revision if necessary

Fieldwork July 2022

- Receiving and reviewing draft financial statements
- Receiving and reviewing the Annual Governance Statement
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Ongoing assessment of potential VFM risks
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

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.

| Item of account | Management's expert | Our expert |
|--|--|---|
| Property Plant and Equipment & Investment Properties | Keir Property Services The Council's external valuer for PPE (where held at valuation) and Investment Properties | We may seek to engage our Internal Valuer to support our testing. |
| | Savills LLP The Council's external valuer for Investment Properties | |
| Pensions | Barnett Waddingham Actuary for Lincolnshire Pension Fund (LGPS) | PWC (Consulting actuary appointed by the National Audit Office). |
| | Hymans Actuary for Lincolnshire Fire Authority Pension fund | |
| Financial Instrument disclosures | Link Asset Management (LAM) Treasury management advisors | None. |

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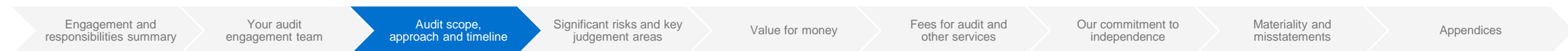
Service organisations

International Auditing Standards (UK) (ISAs) 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 | 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 the Council over these transactions and carry out substantive testing (possibly including substantive analytical procedures and sample testing of transactions occurring in the year). |
| Other income | | |

Internal audit

We will continue to liaise with internal audit to inform our continual risk assessment



04

Section 04:

Significant risks and other key judgement areas

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4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given 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 require additional consideration but does not rise to the level of a significant risk, these include 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

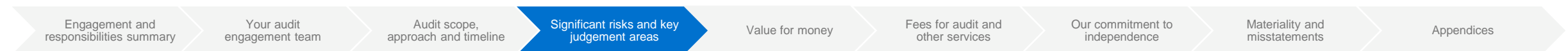
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment

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



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4. Significant risks and other key judgement areas

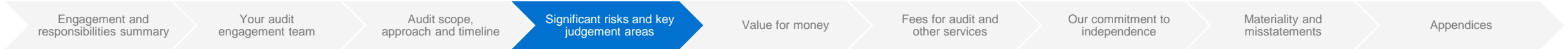
Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. 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 Audit Committee.

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|---|-------|-------|-----------|---|
| 1 | <p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</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> | ● | - | - | 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. |

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4. Significant risks and other key judgement areas

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|---|-------|-------|-----------|--|
| 2 | <p>Net defined benefit liability valuation</p> <p>The defined benefit liability relating to the Local Government Pension Scheme and the Fire-Fighters Pension Scheme represent a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary for each scheme to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> <p>Relevant Account Balances (taken from the 2020/21 final financial statements):</p> <ul style="list-style-type: none"> £1,084m – Note 28 (Net pension liability), made up from: <ul style="list-style-type: none"> Local Government Pension Scheme - £773m Fire-Fighters Pension Scheme - £311m. | - | ● | ● | <p>We plan to address the risk by:</p> <ul style="list-style-type: none"> assessing the competency, objectivity and independence of the Actuary at each Pension Scheme; liaising with the auditors of the Lincolnshire Pension Fund to gain assurance over the design and implementation of controls in place at the Lincolnshire Pension Fund. 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; reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the each Pension Fund Actuary (as applicable), and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and agreeing the data in the IAS 19 valuation reports provided by the each Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. |

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Engagement and responsibilities summary

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Materiality and misstatements

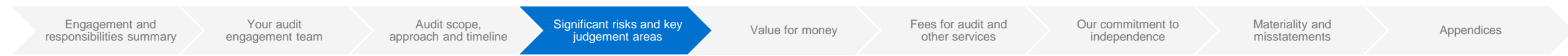
Appendices

4. Significant risks and other key judgement areas

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|--|-------|-------|-----------|--|
| 3 | <p>Valuation of land and buildings and investment properties</p> <p>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>At the planning stage of the audit, this risk covers (figures have been taken from the final 2020/21 financial statements):</p> <ul style="list-style-type: none"> • Land & Buildings (£439m - Note 15) • Investment Properties (£108m – Note 17). | - | ● | ● | <p>We plan to address this risk by:</p> <ul style="list-style-type: none"> • critically assessing the scope of work, qualifications, objectivity and independence of each of the Council's valuers to carry out the required programme of revaluations; • considering 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; • assessing whether valuation movements are in line with market expectations by considering valuation trends; • critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers; and • considering engaging our own valuation expert to support our work. |

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05

Section 05: **Value for money**

5. Value for money

The framework for Value for Money work

We are required to form a view 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 in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

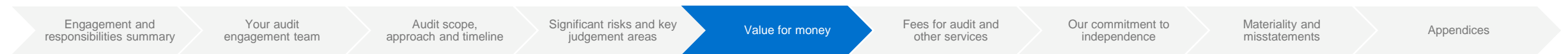
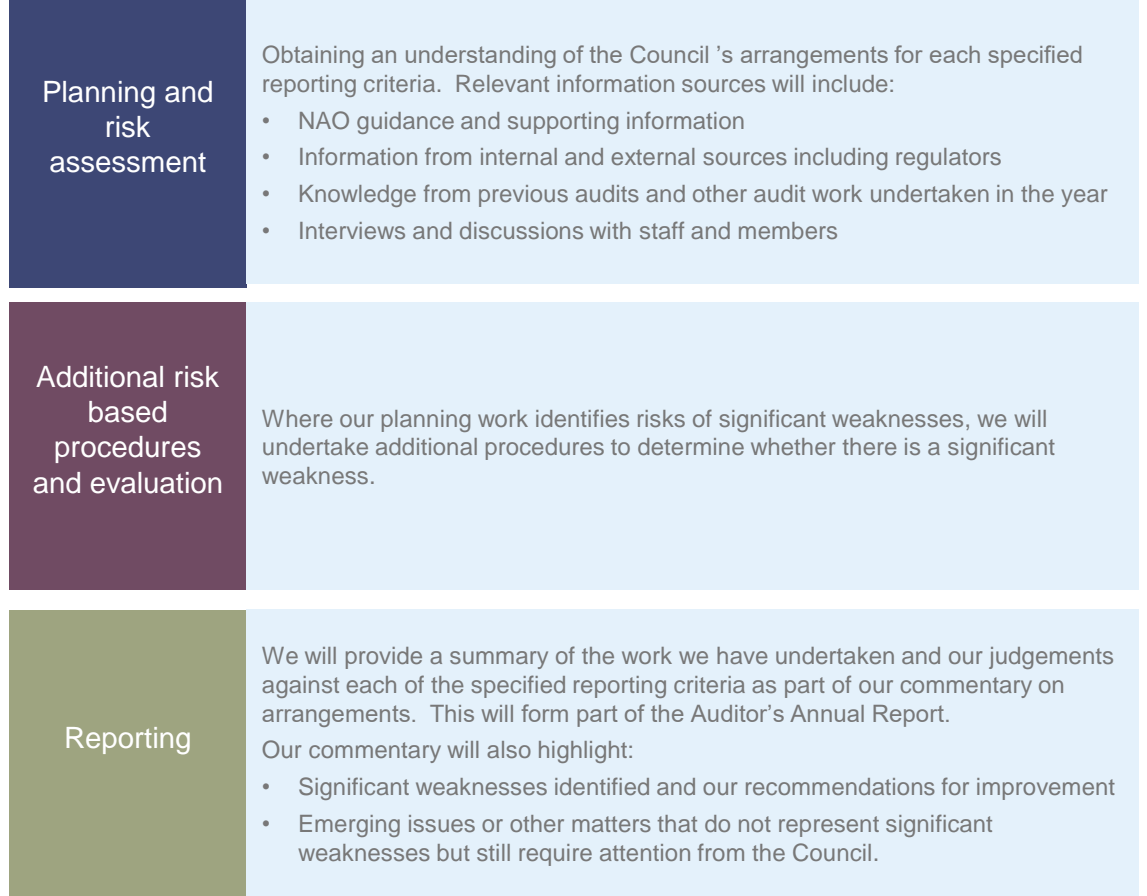
The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Our VFM planning and risk assessment work is an ongoing process and to date, no risks of significant weaknesses in arrangements have been identified. We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work.



06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Council's appointed auditor

Details of the 2020/21 Actual and indicative 2021/22 Audit fees in line with PSAA and other reporting mechanisms are set out below.

| Area of work | 2021/22 Proposed Fee | 2020/21 Actual Fee |
|--|-----------------------|--------------------|
| Scale audit fee | £82,640 | £82,640 |
| Fee variations: | | |
| Additional work in relation to responding to increased regulatory challenge in auditing the IAS19 pension figures contained within the financial statements. | £3,500 ¹ | £2,998 |
| Additional work in relation to responding to increased regulatory challenge in auditing the PPE figures contained within the financial statements. | £5,500 ¹ | £5,540 |
| Additional work in relation to work undertaken by an expert from within the firm, e.g. PPE valuation work performed by a separate internal real estates team. | £2,200 ¹ | £2,016 |
| COVID-19 - Additional work in relation to responding to the impact of Covid-19, both on the financial statements and performing of the audit. e.g. risk assessments/arrangement checklists performed, PPE/pensions valuations work undertaken (Emphasis of Matters), audits taking longer due to impact of remote working. | - | £2,016 |
| Increased FRC challenge for a Major Local Audit - Additional work in relation to the increased regulatory challenge from the FRC. e.g. additional levels of review for major local audits (MLAs), further testing undertaken on specific areas (journals, cut-off, estimates), increased scrutiny of information provided by the entity. | £4,000 ¹ | £3,735 |
| ISA540 - additional work in relation to auditing accounting estimates and related disclosure | £4,700 ² | £4,644 |
| Other | - | £1,188 |
| Sub-total | £102,540 | £104,777 |
| Work undertaken in relation to VFM commentary | £14,000 ³ | £14,063 |
| Grand Total | £116,540 ⁴ | £118,840 |

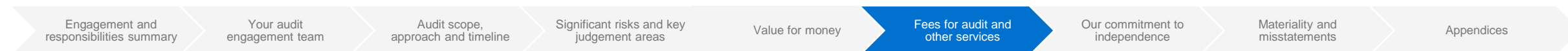
We continue to liaise with PSAA regarding fee variations and sector-wide adjustments to the scale fee.

¹ As previously reported to you, the scale fee has been adjusted to take into account the additional work required as a result of increased regulatory expectations in these areas.

² For 2020/21, new auditing standards have been introduced which will lead to additional audit work not reflected in the scale fee.

³ As explained in section 5, the revised Code of Audit Practice has led to a substantial amount of additional audit work to support the new value for money conclusion and the changes in reporting requirements. The final fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

⁴ This is a proposed fee for 2021/22 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management.



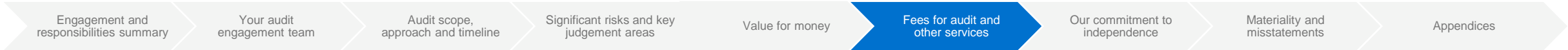
6. Fees for audit and other services

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we 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.

| Area of work | 2021/22 Proposed Fee | 2020/21 Actual Fee |
|--|--|--------------------|
| Assurance services - Education and Skills Funding Agency | £5,250 – Although appointment is to be confirmed | £5,250 |
| Assurance services – Teachers Pensions Return | £3,500 – Although appointment is to be confirmed | £3,000 |

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07

Section 07:

Our commitment to independence

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 FRC’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:

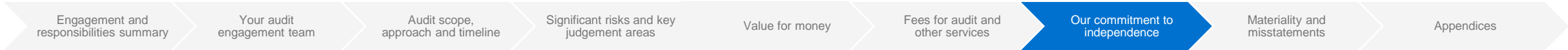
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- 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, 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.

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

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08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

| Threshold | Initial threshold £'000s |
|--|-----------------------------|
| Overall materiality | 23,500 |
| Performance materiality | 17,625 |
| Specific materiality – Senior Officers Remuneration (Note 13b in the 2020/21 financial statements) | 10 |
| Trivial threshold for errors to be reported to Audit Committee | 700 |

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

Materiality

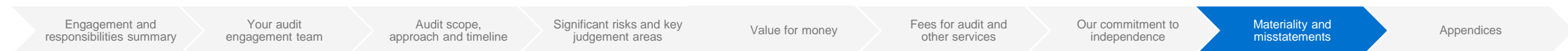
Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

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;



8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services level. Based on prior year financial statements we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £23.5m (£24m in the prior year).

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. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

Misstatements

We accumulate 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 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 £0.7m 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 Audit Committee

The following three types of audit differences above the trivial threshold will be presented to Audit Committee summary of adjusted audit differences;

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



Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

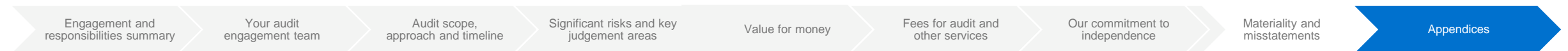
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The 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; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- 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; and
- Independence.

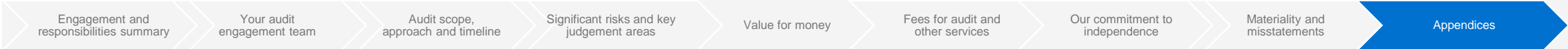


Appendix: Key communication points

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 | Where addressed |
|--|--|
| Our responsibilities in relation to the financial statement audit and those of management and those charged with governance. | Audit Strategy Memorandum |
| The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks. | Audit Strategy Memorandum |
| With respect to misstatements: <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. | Audit Completion Report |
| With respect to fraud communications: <ul style="list-style-type: none"> • enquiries of audit committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. | Audit Completion Report and discussion at Audit Committee, Audit planning and clearance meetings |
| Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. | Audit Completion Report |

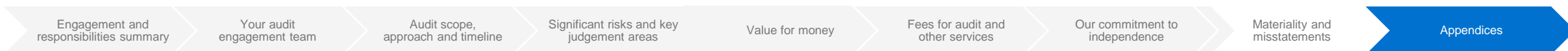
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Appendix: Key communication points

| Required communication | Where addressed |
|--|--|
| Significant findings from the audit including: <ul style="list-style-type: none"> our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; significant difficulties, if any, encountered during the audit; significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; written representations that we are seeking; expected modifications to the audit report; and other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to Audit Committee in the context of fulfilling their responsibilities. | Audit Completion Report |
| Significant deficiencies in internal controls identified during the audit. | Audit Completion Report |
| Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures. | Audit Completion Report |
| Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Audit Committee may be aware of. | Audit Completion Report and Audit Committee meetings |
| With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> whether the events or conditions constitute a material uncertainty; whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and the adequacy of related disclosures in the financial statements. | Audit Completion Report |
| Indication of whether all requested explanations and documents were provided by the entity | Audit Completion Report |

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Mark Surridge

Mazars

First Floor

Two Chamberlain Square

Birmingham, B3 3AX

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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