



# Audit Strategy Memorandum

City of Lincoln Council

Year ending 31 March 2019





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

Members of the Audit Committee  
City of Lincoln Council  
City Hall  
Beaumont Fee  
Lincoln  
LN1 1DD

13 March 2019

Dear Sirs / Madams

**Audit Strategy Memorandum – year ending 31 March 2019**

We are pleased to present our Audit Strategy Memorandum for the City of Lincoln Council for the year ending 31 March 2019.

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 8 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 City of Lincoln 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

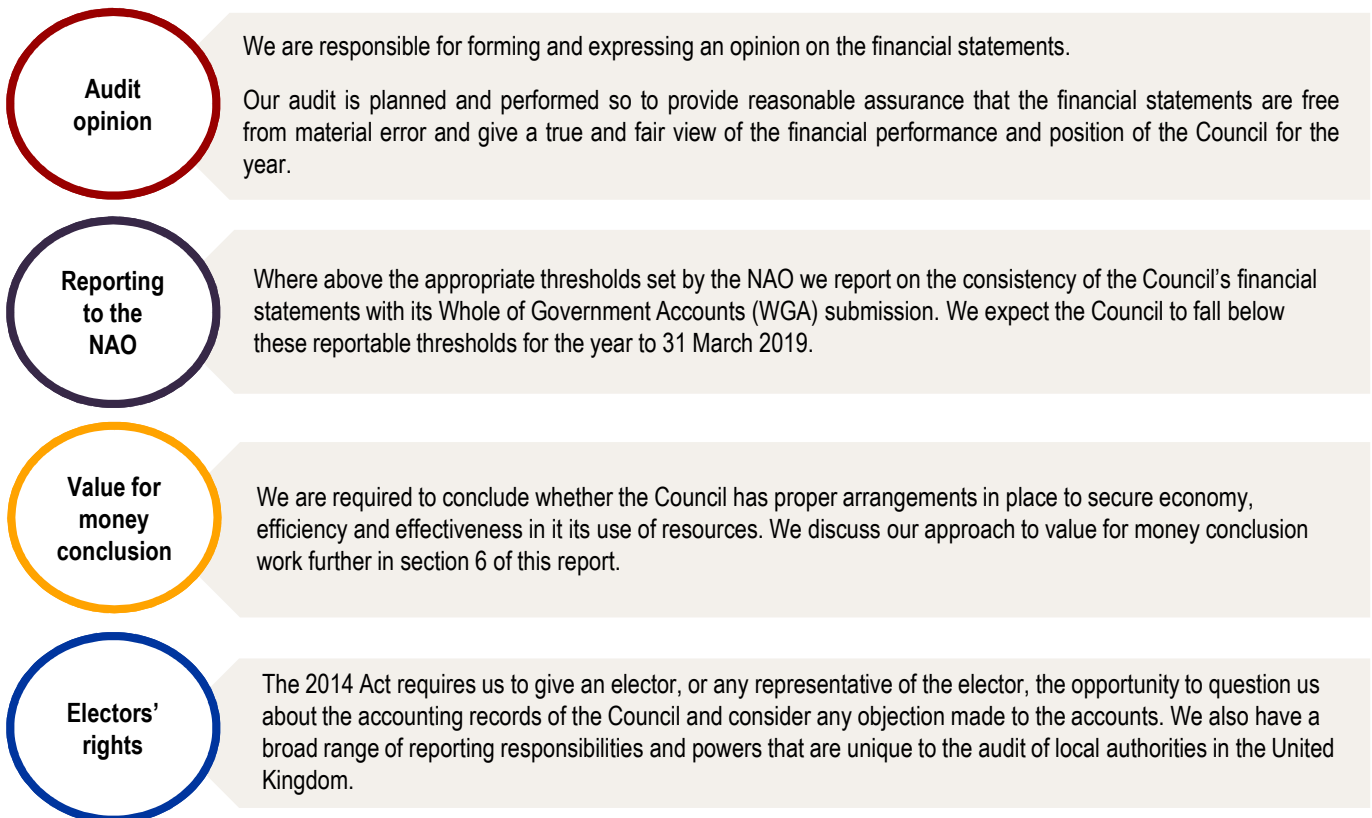
# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

## Overview of engagement

We are appointed to perform the external audit of City of Lincoln Council (the Council) for the year to 31 March 2019. 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/audit-quality/statement-of-responsibilities/>

## Our responsibilities

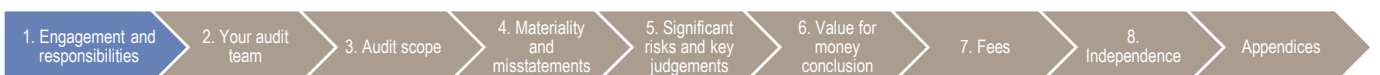
Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



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 management. However, 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 Full Council as those charged with governance.



## 2. YOUR AUDIT ENGAGEMENT TEAM



**Mark Surridge**  
**Director and Engagement Lead**

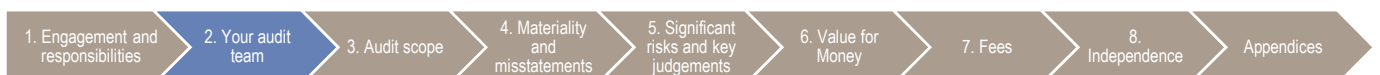
E-Mail: [mark.surridge@mazars.co.uk](mailto:mark.surridge@mazars.co.uk)  
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**Jon Machej**  
**Manager**

E-Mail: [jon.machej@mazars.co.uk](mailto:jon.machej@mazars.co.uk)  
Tel: 0115 964 4782

In addition, an 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.

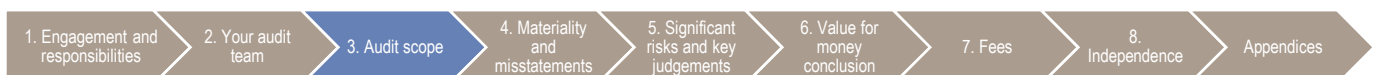
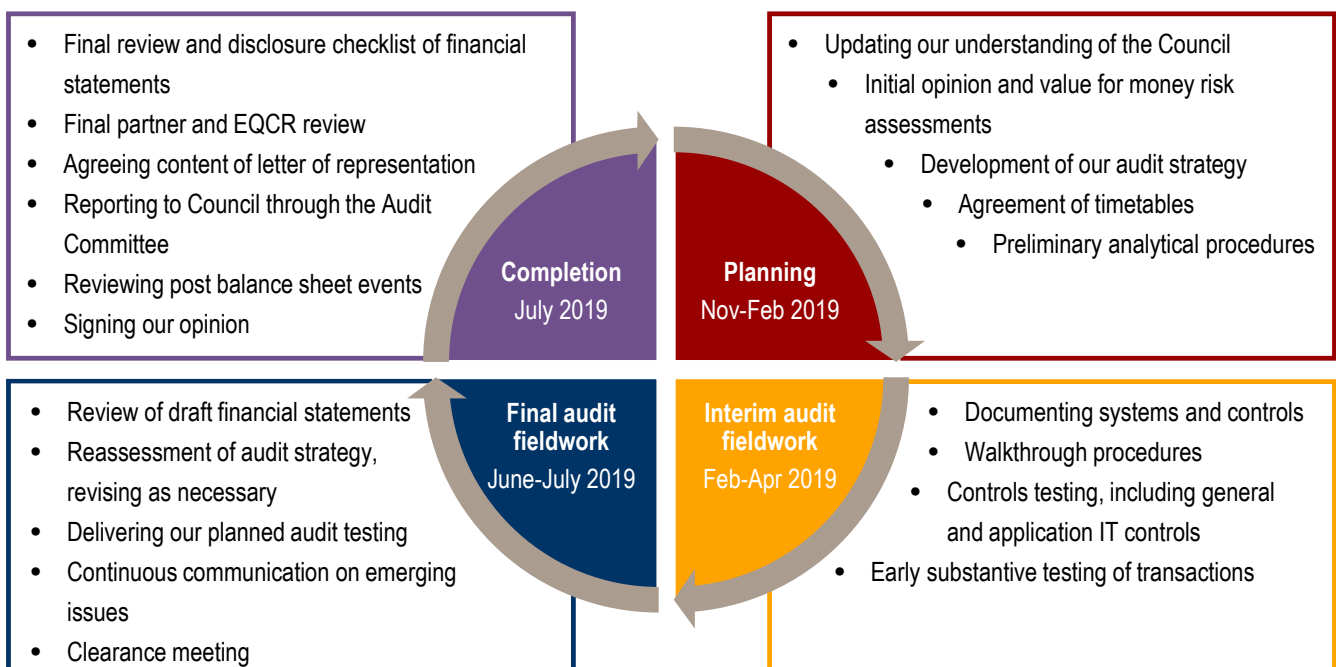
#### Audit approach

Our audit approach is risk-based and primarily driven by the matters that lead to 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 4.

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



### 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

#### Public interest entities

Some types of audits require additional considerations, such as public interest entities (PIEs). PIEs are those bodies as defined by the Financial Reporting Council's Ethical Standard, including those holding listed debt. As the Council holds debt (less than our materiality level set out in this document) listed on the London Stock Exchange, it is classed as a Public Interest Entity. This results in:

- additional acceptance and engagement considerations (see further considerations in section 8);
- enhanced quality control requirements; and
- additional enhanced audit report requirements.

These requirements are not included in the scale fee set by Public Sector Audit Appointments and therefore will result in additional audit fees

#### 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.

We are not planning to rely on the work of internal audit, but should we do so, we would 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 Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. We discuss our use of experts further in respect of independence in section 8.

| Items of account                        | Management's expert  | Our expert  |
|---|--|---|
| Defined benefit liability               | Hymans Robertson<br><i>Actuary for Lincolnshire Pension Fund</i>   | PWC<br><i>Consulting actuary appointed by the NAO</i>       |
| Property, plant and equipment valuation | District Valuer Services<br><i>External valuation specialist</i><br><br>Paul Clifton<br><i>The Council's internal valuer</i> | Gerald Eve<br><i>Consulting valuer appointed by the NAO</i> |
| Business rate appeals provisions        | InformCPI<br><i>External rating specialist</i>   | Not applicable  |
| Financial instrument disclosures        | Link Asset Services<br><i>Treasury management advisors</i>   | Not applicable  |



### 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

#### Service organisations

International Auditing Standards 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   |
|---|--|--|
| Pension cost (cost of services)<br>Net interest on defined benefit liability<br>Re-measurements of the net defined benefit liability (OCI)<br>Net pension liability | Lincolnshire Pension Fund<br><i>The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.</i> | <p>We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation.</p> <p>Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.</p> |





## 4. MATERIALITY AND MISSTATEMENTS

### Summary of initial materiality thresholds

| Threshold  | Materiality £000 |
|--|------------------|
| Overall materiality  | £1,523           |
| Performance materiality  | £838             |
| Trivial threshold for errors to be reported to Council through the Audit Committee | £46              |

### 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 the 2017/18 gross expenditure at the surplus/deficit on provision of services level. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Council through the Audit Committee.

We consider that gross expenditure at the surplus/deficit on provision of services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



## 4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 1.3% of the benchmark based on the 2017/18 audited financial statements. We considered qualitative factors in making our assessment including:

- the level of understanding users of the financial statements have in respect of the inherent uncertainties and judgements made;
- the level of understanding users of the financial statements have that the statements being audited to levels of materiality; and
- our ability to make informed decisions about users' understanding of materiality.

Based on our assessment, we did not identify any limiting factors. Therefore we anticipate the overall materiality for the year ending 31 March 2019 to be £1.523 million. 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 first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 55% of our overall materiality, being £838,000.

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.

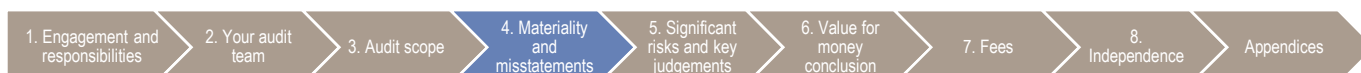
### Specific items of lower materiality

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 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                                     | Basis             | Specific materiality |
|---|-------------------|----------------------|
| Note 34 - Members' allowances and expenses*         | 25% of total      | £57,000              |
| Note 35 - Senior Officers' remuneration*            | 25% of total      | £108,000             |
| Note 35 - Officers' remuneration (bandings table)** | Bandings (£5,000) | £5,000               |
| Note 36 - External audit costs*                     | 25% of total      | £15,000              |

\* Based on prior year amounts and accounts reference

\*\* Reflecting movement from one salary band to another



## 4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

### Reporting misstatements threshold (triviality)

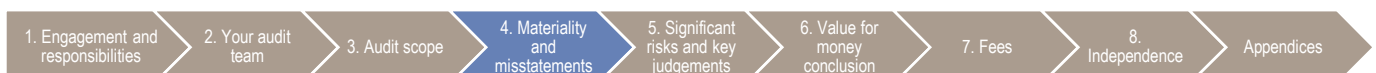
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to Council through the Audit Committee that is consistent with the level of triviality that we consider would 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 £46,000 based on 3% of overall materiality.

### Reporting to Council through the Audit Committee

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

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



# 5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS

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:

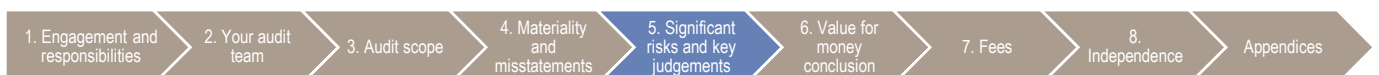
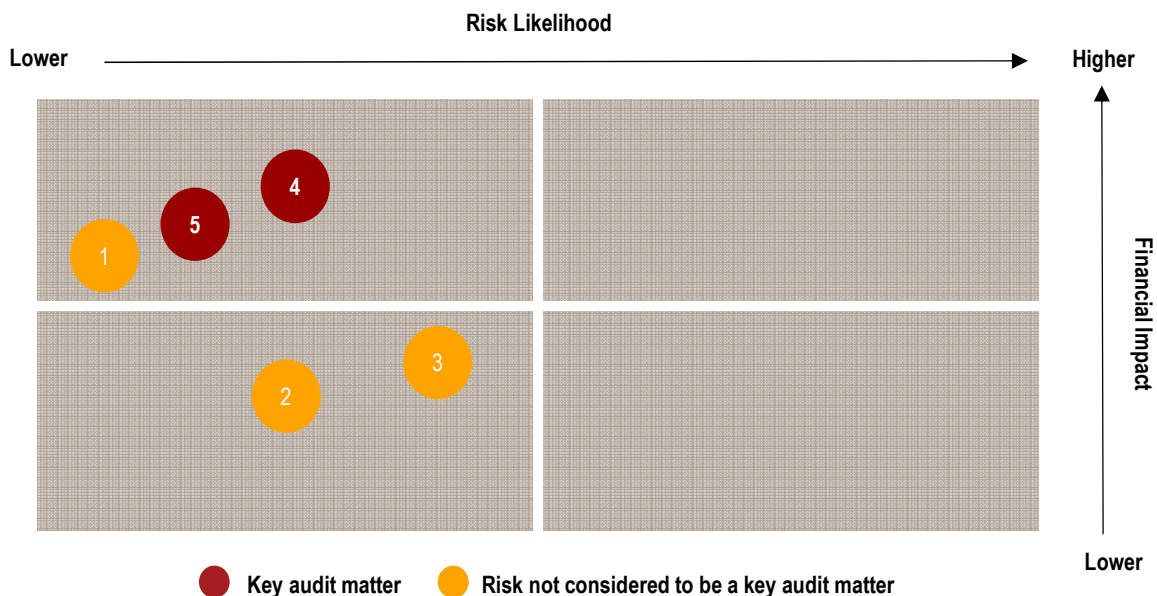
- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant 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.

### Key audit matters

Key audit matters are defined as those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we have identified, including those which have the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. Key audit matters are broadly equivalent to the assessed risks of material misstatement included in the previous version of ISA (UK and Ireland) 700, The Independent Auditor's Report on Financial Statements.

It is important that you understand and have opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant, key audit matters and other enhanced risks. Our audit response to each of these risks in the following section.

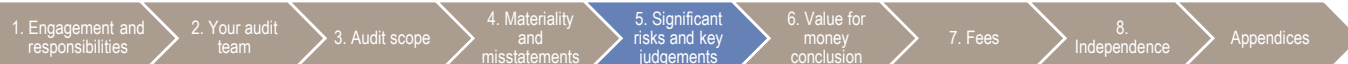
At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council's key financial systems and general IT controls. We aim to complete this work as part of our interim visit in February and March and will update the Audit Committee where we subsequently identify any additional risks.



## 5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (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 Council through the Audit Committee.

|   | Description of risk   | Fraud | Error | Judgement | Expected KAM | Planned response   |
|---|---|-------|-------|-----------|--------------|--|
| 1 | <p><b>Management override of controls</b></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. Because of 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 tailored tests over significant accounting estimates, journal entries and identified significant transactions that are outside the normal course of business or judged to be otherwise unusual.   |
| 2 | <p><b>Revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition although, based on the circumstances of each audit, this is rebuttable.</p> <p>Having considered the factors for revenue recognition and the Council's revenue streams, we have concluded that the risk lies in the year-end balance sheet and in particular the existence and accuracy of debtors, specifically those that relate to useable reserves, are material, subject to manual intervention and/or significant estimation.</p> <p>This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p> | ●     | ●     | ●         | ○            | <p>We will evaluate the design and implementation of controls to mitigate the risk of material manual debtors being recognised in the wrong period. In addition, we will test such debtors to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly.</p> <p>Our audit approach will also incorporate a range of other substantive procedures, including:</p> <ul style="list-style-type: none"> <li>• testing from receipts pre and post year-end to ensure revenue has been posted to the correct period; and</li> <li>• testing journals.</li> </ul> |



## 5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

|   | Description of risk  | Fraud | Error | Judgement | Expected KAM | Planned response  |
|---|--|-------|-------|-----------|--------------|---|
| 3 | <p><b>Expenditure recognition</b></p> <p>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. Again, based on the circumstances of each audit, this is rebuttable.</p> <p>Having considered the factors for expenditure recognition, we have concluded that the risk lies in the year-end balance sheet and in particular the completeness and valuation of creditors, specifically those that are material, manually accrued and impact the Council's useable reserves.</p> <p>This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p> | ●     | ●     | ●         | ○            | <p>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.</p> <p>Our audit approach will also incorporate a range of other substantive procedures, including:</p> <ul style="list-style-type: none"> <li>testing of payments around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts; and</li> <li>testing journals.</li> </ul> |

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Materiality and misstatements

5. Significant risks and key judgements

6. Value for money conclusion

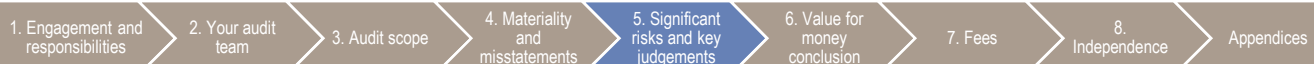
7. Fees

8. Independence

Appendices

## 5. SIGNIFICANT RISKS, KEY AUDIT MATTERS AND OTHER JUDGEMENTS AND ENHANCED RISKS (CONTINUED)

|   | Description of risk  | Fraud | Error | Judgement | Expected KAM | Planned response   |
|---|--|-------|-------|-----------|--------------|--|
| 4 | <p><b>Valuation of property, plant and equipment, investment properties and assets held for sale</b></p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE), investment properties and assets held for sale.</p> <p>The Council employs valuation experts to provide information on valuations, because there is a high degree of estimation uncertainty associated with the (re)valuations of PPE, investment properties and assets held for sale due to the significant judgements and number of variables involved.</p> | ○     | ●     | ●         | ●            | <p>In relation to the valuation of property, plant &amp; equipment, investment properties and assets held for sale we will:</p> <ul style="list-style-type: none"> <li>critically assess the Council's arrangements for ensuring that PPE, investment property and assets held for sale valuations are reasonable;</li> <li>critically assess the data provided by Gerald Eve (an expert commissioned by the NAO), as part of our challenge of the reasonableness of the valuations provided by the Council's valuers;</li> <li>consider the competence, skills and experience of the valuers and the instructions issued to the valuers; and</li> <li>where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li> </ul> |
| 5 | <p><b>Valuation of net defined benefit liability</b></p> <p>The financial statements contain material accounting entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>  | ○     | ●     | ●         | ●            | <p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> <li>critically evaluate the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and</li> <li>challenge the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.</li> </ul>   |



## 6. VALUE FOR MONEY

### Our audit approach

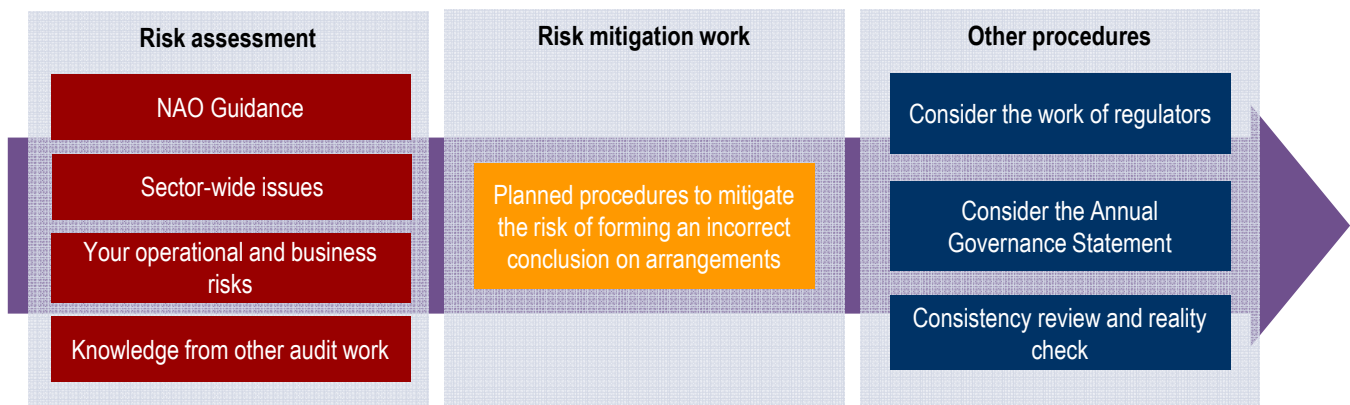
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria 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 provided 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 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 significant risk exists. Risk, in the context of our value for money (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 2018/19 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 and where any such risk is identified, these will be reported to Council through the Audit Committee as part of our Audit Completion Report.





## 7. FEES FOR AUDIT AND OTHER SERVICES

### Fees for work as the Council's appointed auditor

At this stage of the audit we recognise that the scale fees set by PSAA, as communicated in our fee letter of 25 April 2018, are based on the Council's previous non-public interest entity classification. We therefore recognise that there will be a need to increase these fees to reflect the additional audit requirements as set out in section 3.

| Service   | 2017/18 fee<br>(KPMG LLP) | 2018/19 fee |
|---|---------------------------|-------------|
| Code audit work – Scale fee   | £47,185                   | £36,332     |
| Code audit work – Additional fee in relation to EU PIE classification | £5,000                    | *           |

\* - Subject to discussion and agreement with the Chief Finance Officer

### 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 8.

| Service   | 2017/18 fee | 2018/19 fee |
|---|-------------|-------------|
| Assurance Services: Housing Benefits Subsidy return | £10,570*    | £6,600      |
| Assurance Services: Housing Pooling return          | £3,500**    | -           |

\* - KPMG LLP

\*\* - Mazars LLP



## 8. 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.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars' member firm. In section 5 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report.

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.

### Public interest entity specific requirements

In addition, there are specific requirements in respect of public interest entities, such as this Council, including in respect of:

- the prohibition on provision of certain non-audit services; and
- rotation periods.

### Confirmation of independence

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.

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

Our assessment of perceived threats and safeguards for non-audit services in respect of 2018/19, as detailed in section 7, is set out in the table below.

### Assessment of perceived threats and safeguards for non-audit services in respect of 2018/19

| Area of work  | Perceived threat   | Safeguards and commentary   |
|---|--------------------|---|
| Assurance Services: Housing Benefits Subsidy return | Self-review threat | No safeguards required. The fee for this work is neither significant to Mazars LLP nor the Council. |



## 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   | Where addressed   |
|--|---|
| Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.   | Audit Strategy Memorandum<br>Engagement letter  |
| The planned scope and timing of the audit including any limitations, specifically including with respect to key audit matters.   | Audit Strategy Memorandum   |
| With respect to misstatements: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>   | Audit Completion Report   |
| With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>   | Audit Completion Report<br>Discussion at Audit Committee<br>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"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul> | 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   |
| Indication of whether all requested explanations and documents were provided by the entity.  | Audit Completion Report   |

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Materiality and misstatements

5. Significant risks and key judgements

6. Value for money conclusion

7. Fees

8. Independence

Appendices

## APPENDIX A – KEY COMMUNICATION POINTS (CONTINUED)

| Required communication  | Where addressed   |
|---|---|
| <p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>significant difficulties, if any, encountered during the audit;</li> <li>significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>written representations that we are seeking;</li> <li>expected modifications to the audit report; and</li> <li>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 the Audit Committee in the context of fulfilling their responsibilities.</li> </ul> | 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 the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.  | Audit Completion Report<br>Audit Committee meetings                     |
| <p>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:</p> <ul style="list-style-type: none"> <li>whether the events or conditions constitute a material uncertainty;</li> <li>whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>the adequacy of related disclosures in the financial statements.</li> </ul>   | Audit Completion Report   |
| Reporting on the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods.   | Audit Completion Report   |
| Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.  | Audit Strategy Memorandum and/or Audit Completion Report as appropriate |
| Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms.  | Audit Strategy Memorandum and/or Audit Completion Report as appropriate |
| Identification of each key audit partner involved in the audit.   | Audit Strategy Memorandum   |
| Communication in respect of any arrangements for any of our activities as auditor to be conducted by another firm.  | Audit Strategy Memorandum and/or Audit Completion Report as appropriate |

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Materiality and misstatements

5. Significant risks and key judgements

6. Value for money conclusion

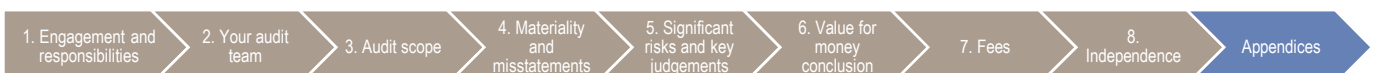
7. Fees

8. Independence

Appendices

## APPENDIX A – KEY COMMUNICATION POINTS (CONTINUED)

| Required communication   | Where addressed   |
|--|---|
| Description of nature, frequency and extent of communication with the Audit Committee and other relevant bodies including dates of meetings.   | Audit Strategy Memorandum   |
| Description of distribution of tasks among the auditors where more than one auditor has been appointed.  | Audit Strategy Memorandum   |
| Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year.   | Audit Strategy Memorandum and/or Audit Completion Report as appropriate |
| Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality.   | Audit Strategy Memorandum and/or Audit Completion Report as appropriate |
| Explanation of judgements about events or conditions identified during the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment. | Audit Strategy Memorandum and/or Audit Completion Report as appropriate |
| Reporting on significant deficiencies including whether or not the deficiency in question has been resolved by management.   | Audit Completion Report   |



# APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

## Changes relevant to 2018/19

**IFRS 9 Financial Instruments:** the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost.

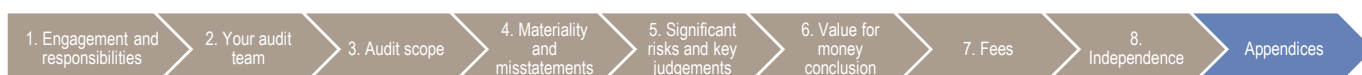
For Councils that hold instruments required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. At this stage it is unclear whether statutory provisions, over and above those already in place, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.

**IFRS 15 Revenue from Contracts with Customers:** the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

## Changes in future years

| Accounting standard | Year of application | Implications  |
|---------------------|---------------------|---|
| IFRS 16 – Leases    | 2020/21             | <p>We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council are party to.</p> |



# APPENDIX C – EXTENDED AUDITOR’S REPORT

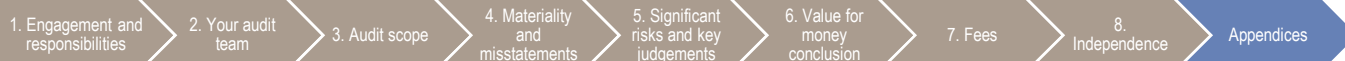
## Basis of requirement for an extended auditor’s report

We are required to issue an extended auditor’s report on the Council’s 2018/19 financial statements under ISA (UK) 700 ‘Forming an Opinion and Reporting on Financial Statements’. This is required as the Council meets the definition of a Public Interest Entity as a result of it having debt that is listed on an EU regulated market.

## Layout of the extended auditor’s report

The extended auditor’s report for 2018/19 is expected to follow the format and structure outlined below, assuming that no emphasis of matter or qualification is required.

| Paragraph heading                     | Summary of key content  |
|---------------------------------------|---|
| Opinion                               | What we have audited and our opinion thereon.   |
| Basis for opinion                     | Confirmation: <ul style="list-style-type: none"> <li>that the audit is undertaken under the ISAs (UK);</li> <li>of our independence including with the FRC’s Ethical Standard; and</li> <li>regarding sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.</li> </ul>   |
| Conclusions relating to going concern | Reporting by exception on the Council’s: <ul style="list-style-type: none"> <li>use of the going concern basis of accounting; and</li> <li>disclosure of any material uncertainties.</li> </ul>   |
| Key audit matters                     | Definition of key audit matters.<br><br>Clarification that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters.<br><br>For each key audit matter identified: <ul style="list-style-type: none"> <li>a description of the most significant assessed risk(s) of material misstatement;</li> <li>a summary of our response to those risks; and</li> <li>key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements, where relevant.</li> </ul> |
| Our application of materiality        | Explanation of how we applied the concept of materiality in planning and performing the Council’s audit.<br><br>The overall materiality threshold for the Council’s financial statements as a whole.  |
| An overview of the scope of our audit | Overview of the scope of the audit, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.   |
| Other information                     | Responsibilities of the Chief Finance Officer and of the auditor for other information included in the Narrative Report.  |



## APPENDIX C – EXTENDED AUDITOR’S REPORT (CONTINUED)

| Paragraph heading   | Summary of key content  |
|---|---|
| Responsibilities of the Chief Finance Officer for the financial statements  | Cross reference to the Statement of the Chief Finance Officer Responsibilities.   |
| Auditor’s responsibilities for the audit of the financial statements  | Explanation of the ‘reasonable assurance’ objective of the audit.<br><br>Cross-reference to our responsibilities for the audit on the FRC’s web-site.   |
| Value for money conclusion conclusion   | Our conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.  |
| Basis for conclusion  | Overview of the scope of our value for money work.  |
| Responsibilities of the Council for arrangements for securing economy, efficiency and effectiveness in its use of resources                 | Sets out the Council’s responsibilities.  |
| Auditor’s responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources | Sets out the auditor’s responsibilities, derived from the Local Audit and Accountability Act 2014.  |
| Matters on which we are required to report by exception   | Report in the public interest under section 24 of the Local Audit and Accountability Act 2014.<br><br>Recommendation under section 24 of the Local Audit and Accountability Act 2014.<br><br>Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014. |
| Other matters which we are required to address  | Confirms that we have not carried out any prohibited non-audit services and that we remain independent to the Council.<br><br>Confirms that our audit opinion is consistent with the Audit Completion Report.   |
| Use of the audit report   | Sets out who we are reporting to and what the report may be used for.   |
| Audit certificate   | Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.  |

