Appendix A

Audit Strategy Memorandum

City of Lincoln Council

Year ending 31 March 2020

MAZARS

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MAZARS

Mazars LLP
45 Church Street
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B3 2RT

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

27 February 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for City of Lincoln Council for the year ending 31 March 2020.

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

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

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing 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

Director, 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 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/

Our responsibilities

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

Audit opinion

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

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

Value for Money

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

Reporting to the NAO

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

Electors' rights

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

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

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

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified Full Council as those charged with governance, with our reporting going via the Audit Committee.

2. YOUR AUDIT ENGAGEMENT TEAM

Mark Surridge
Director and Engagement Lead

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Jon Machej
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Kizzy Atkins
Assistant Manager

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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.

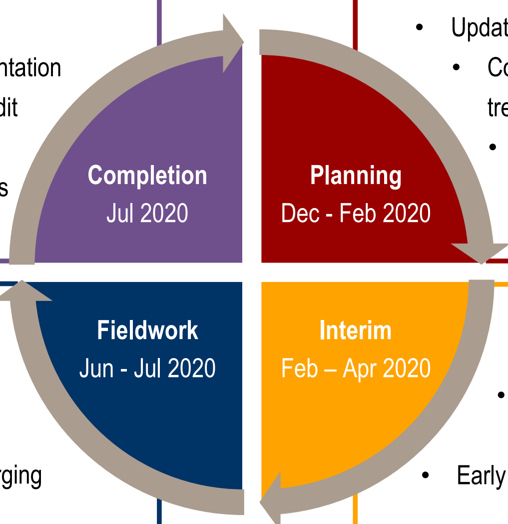
Audit approach

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

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

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

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



Planning (Dec - Feb 2020)

- Initial opinion and value for money risk assessments
- Updating our understanding of the Council
- Considering proposed accounting treatments and accounting policies
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures

Interim (Feb – Apr 2020)

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

Fieldwork (Jun - Jul 2020)

- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

Completion (Jul 2020)

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to Council through the Audit Committee
- Reviewing post balance sheet events
- Signing our opinion

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 on 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 7.

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

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 7);
- 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.

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) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Lincolnshire Pension Fund *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.*	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. 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.

4. 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:

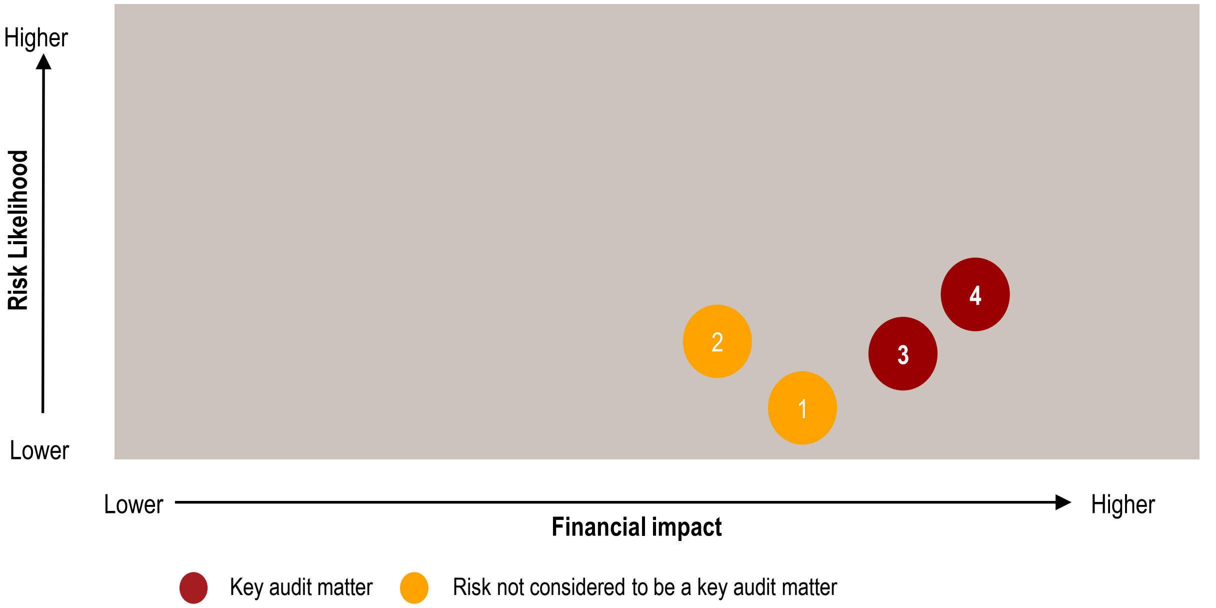
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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 identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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 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 is outlined on the table on the following page.



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

Specific identified audit risks and planned testing strategy

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

Significant risks

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	●	●	-	We plan to address the management override of controls risk through performing 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	**Revenue recognition** 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. Having considered the factors for revenue recognition and the Council's revenue streams, we have concluded that this can be rebutted with the exception of fees and charges. In this respect we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of debtors, specifically those that relate to useable reserves, are material, and are subject to manual intervention and/or significant estimation. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.	●	●	●	-	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. Our audit approach will also incorporate a range of other substantive procedures, including: • testing from receipts pre and post year-end to ensure revenue has been posted to the correct period; and • testing journals.

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

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
3	**Valuation of property, plant and equipment, investment properties and assets held for sale** 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. 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.	-	●	●	●	In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will: • critically assess the Councils' valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • consider whether the overall revaluation methodology used by the Councils' valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • assess whether valuation movements are in line with market expectations by reference to alternative sources of valuation data to provide information on regional valuation trends; • critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and • critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils' valuers.

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

	Description of risk	Fraud	Error	Judgement	Expected KAM	Planned response
4	**Valuation of net defined benefit liability** 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.	-	●	●	●	In relation to the valuation of the Council's defined benefit pension liability we will: • critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary, Hymans Robertson; • liaise with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PwC, the consulting actuary engaged by the National Audit Office; and • agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

5. VALUE FOR MONEY

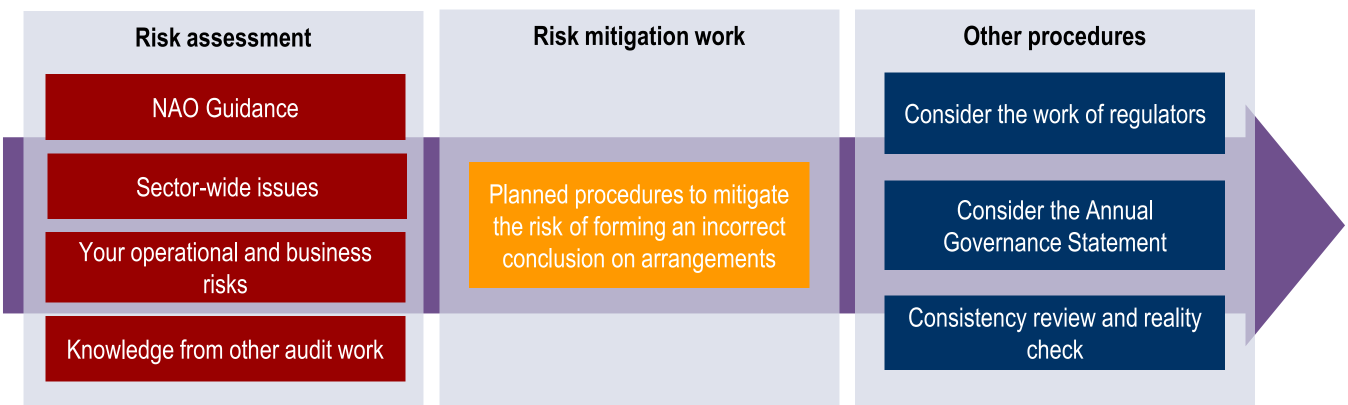
Our approach to Value for Money
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out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

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

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

For the 2019/20 financial year, we have not identified any significant risks to our VFM conclusion. We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist and where any such risk is identified, these will be reported to Council through the Audit Committee as part of our Audit Completion Report.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we expect to need to reflect the scale fee set by PSAA as communicated in our fee letter of 24 April 2019 and other matters listed below:

Service	2018/19 fee	2019/20 fee
Code audit work	£36,332	£36,332
Additional work to reflect the cost of audit work on the revised financial statements following a changes to pension liabilities to take account of the McCloud adjustment	£750	Not expected to reoccur
Additional work to reflect the cost of audit work on the revised financial statements in respect of the Council's prior period adjustment	£1,017	Not expected to reoccur
Additional work to reflect the Council's designation as a Public Interest Entity	£5,000	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.	-	To be agreed
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment.	-	To be agreed
Total	£43,099	To be agreed

In common with all local government external auditors we are required to carry out additional procedures which were not expected when fees were set.

Public interest Entity

Designation as an EU Public Interest Entity (EU PIE) The new European Union (EU) statutory audit legislation came into effect for all financial years starting on or after June 17, 2016. The new Public Interest Entity (PIE) definition includes organisations with transferable securities listed on EU regulated markets and governed by the law of an EU member. City of Lincoln Council had £560,780 of listed debt as at 31 March 2019. As a result of this listed debt, the Council falls under the definition of an EU PIE. In particular there are additional requirements at both the planning and the reporting stages of the audit, culminating in the longer-form audit report.

Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level of work we do on:

- defined benefit pension schemes; and
- valuation of property, plant and equipment

We will discuss the driving factors with Council officers and the audit fee for 2019/20 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the approval process.

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.

Service	2018/19 fee	2019/20 fee
Assurance Services: Housing Benefit Subsidy Return	£6,600	£6,600 *
Assurance Services: Housing Pooling Return	£3,250	To be agreed

* - These fees are subject to a CPI uplift based on the rate at 1 April 2020 (capped at 2.5%),

7. OUR COMMITMENT TO INDEPENDENCE

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

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 4 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;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

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

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

Principal threats to our independence and identified associated safeguards are set out below:

Area of work	Safeguards and commentary
Assurance Services: Housing Benefits Subsidy return Assurance Services: Housing Pooling return	We have considered threats and safeguards as follows: • Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars; • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis; • Management: The work does not involve Mazars making any decisions on behalf of management; • Advocacy: The work does not involve Mazars advocating the Council to third parties; • Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council's appointed auditor; and • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.

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

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold (£'000s)
Overall materiality	£1,800
Performance materiality	£1,350
Trivial threshold for errors to be reported to Council through the Audit Committee	£54

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 2018/19 total gross expenditure at the surplus/deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to Council through the Audit Committee.

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

We have set a materiality threshold at 1.5% of the benchmark based on the 2018/19 audited financial statements.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be £1,800,000 (£1,523,000 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. In setting performance materiality we have taken into account that this is our second year of audit, we have cumulative audit knowledge about the Council's financial statements, and that we identified a number of non-complex errors in the prior year. We have therefore set our performance materiality at 75% (increased from 55% last year) of our overall materiality being £1,350,000.

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 a 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	Specific performance materiality (£'000s)
Senior officers' remuneration	£5,000*
Members' allowance and expenses	£60,000
External audit costs	£14,000
Termination payments	£60,000

* - Reflecting movement from one salary band to another

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to 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 £54,000 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 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).

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 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: • 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: • Enquiries of the 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 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: • 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
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

APPENDIX A – KEY COMMUNICATION POINTS (CONTINUED)

Required communication	Where addressed
Significant findings from the audit including: • 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 the Board of Directors or the Audit Committee in the context of fulfilling their responsibilities.	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 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: • 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
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
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

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

Financial reporting changes relevant to 2019/20

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

Financial reporting changes in future years

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

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 2019/20 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 2019/20 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: • that the audit is undertaken under the ISAs (UK) • of our independence including with the FRC's Ethical Standard • regarding sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
Conclusions relating to going concern	Reporting by exception on the Council's: • use of the going concern basis of accounting • disclosure of any material uncertainties
Key audit matters	Definition of key audit matters. 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. For each key audit matter identified: • a description of the most significant assessed risk(s) of material misstatement • a summary of our response to those risks • key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements, where relevant.
Our application of materiality	Explanation of how we applied the concept of materiality in planning and performing the Council's audit. 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

Paragraph heading	Summary of key content
Responsibilities of the Chief Finance Officer for the financial statements	Cross reference to the Statement of Chief Finance Officer's Responsibilities.
Auditor's responsibilities for the audit of the financial statements	Explanation of the 'reasonable assurance' objective of the audit Cross-reference to our responsibilities for the audit on the FRC's web-site
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. Recommendation under section 24 of the Local Audit and Accountability Act 2014. Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.
Value for Money arrangements 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.
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 on the Council. 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.